

Monthly Market Review



Information provided by VA SNAP's Investment Manager PFM Asset Management LLC

"The one thing that is certain is the uncertainty of it all."

Economic Highlights

- Although the season is changing, the clouds of uncertainty have not dissipated. Economic risks are still rooted in the country's struggle to contain the coronavirus, increasing business layoffs, stalled fiscal stimulus and the upcoming highly acrimonious presidential election.
- At the September Federal Open Market Committee meeting, members continued to acknowledge the "tremendous human and economic hardship" the COVID-19 pandemic is causing. In new economic projections, the Committee extended the horizon of expected zero rates through 2023. They also referenced their new inflation policy by suggesting that they will allow "inflation moderately above 2% for some time so that inflation averages 2% over time." Meanwhile, Federal Reserve (Fed) leaders continue to strongly call for additional fiscal stimulus.
- The U.S. economy added 661,000 jobs in September, falling well short of the estimated 859,000 jobs and the 1.3 million job gain in August. The unemployment rate ticked lower to 7.9% from 8.4%, but a fall in the labor force participation rate accounted for most of the improvement. At the same time, a total of 25.3 million people are receiving unemployment insurance benefits, compared to just 1.4 million a year ago.
- Consumer spending rose at a sluggish pace in August, while personal income fell 2.7% as the government's supplemental unemployment benefits expired. An increasing number of permanent layoffs and a drop in income threatens to slow the recovery in the coming months.
- The housing market remains a bright spot in the economy as low mortgage rates and limited inventory have fueled strong sales and appreciating home prices.

Bond Markets

- Low volatility and directionless trading barely moved Treasury yields in September. The yield on the benchmark 2-year Treasury note remained anchored at 0.13%, and the yield on the benchmark 10-year Treasury note slipped two basis points (bps) to 0.68%.
- Treasury index returns were muted as yields traded in a very tight range for most of the month. For the period, the 3-month Treasury Index and the 5-year Treasury Index returned 0.01%, while the 10-year Treasury Index returned 0.22%.
- September was another busy month for corporate issuance. Investment-grade (IG) corporations continued to capitalize on the low borrowing rate environment and fortify balance sheets by locking in cheap financing. IG companies raised \$167 billion of debt, the largest of any September in history.
- Meanwhile, IG corporate spreads ticked slightly higher as economic uncertainties took hold. The result was to depress returns compared with Treasury benchmarks. For example, the return on the Bloomberg Barclays U.S. Intermediate Corporate Index was -0.18%.

Equity Markets

- After a five-month surge, U.S. equity markets pulled back due to an amalgam of overbought conditions and stalled stimulus progress. For September, the S&P 500 fell 3.9%; NASDAQ retreated 5.2%, and the Dow slipped 2.3%.
- Developed market equities did a bit better than U.S. equities, with the MSCI ACWI ex-USA Index off 2.46%. The U.S. Dollar Index (DXY) appreciated nearly 2% after several months of weakness. Resurging COVID-19 cases in many regions of the world contributed to dollar strength.

PFM Strategy Recap

- The U.S. economy remains on a path toward a slow recovery amid a challenging health outlook and mounting political uncertainty. Considering these uncertainties, we continue to focus on investment discipline, maintaining a neutral duration strategy.
- Federal agency securities continued to offer good value, especially for maturities beyond three years. We have increased allocations to agencies, at the expense of mortgage-backed securities (MBS), to improve the overall risk profile of portfolios. Supply is expected to slow in the coming months, however, and this may pressure spreads tighter.
- MBS face continued headwinds, including accelerated prepayments, due to record low mortgage rates and uncertainty around the pace of Fed buying. MBS have generally underperformed this year. We have reduced MBS allocations, limiting purchases to shorter structures or agency commercial mortgages (CMBS).
- Corporate yield spreads moved slightly wider amid an equity market pullback, decelerating economic improvement and political uncertainty. Given rising headwinds and many issuer spread levels at or near pre-pandemic tights, we now view the corporate sector as carrying some additional risk. We manage this risk by making modest reductions in allocations to the sector and a focus on issuer selection. We have continued to buy municipal credits as an alternative to add diversification.
- Asset-backed securities (ABS) have performed well during the recovery. Spreads to comparable Treasuries and corporate bonds have narrowed, reducing return potential. ABS are exposed to rising consumer delinquency rates. Although net losses are expected to increase over the coming months, we believe the AAA-rated tranches can weather those challenges based on our risk models. We remain active but cautious buyers of new ABS issues, as we seek to maintain core portfolio allocations.
- In short-term markets, LIBOR fell to record lows, credit spreads continue to collapse and supply is constrained, making finding reasonable value challenging.

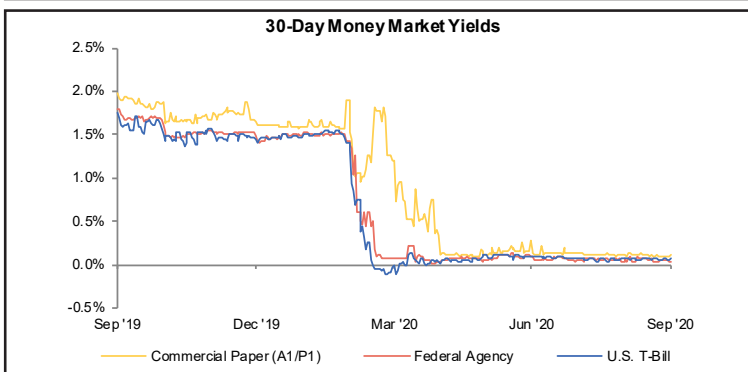
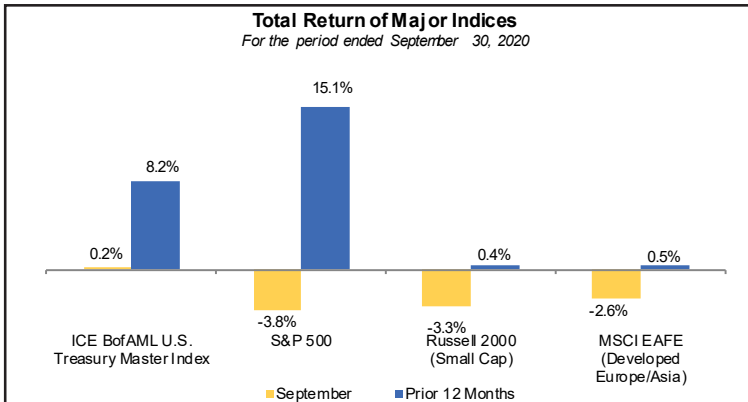
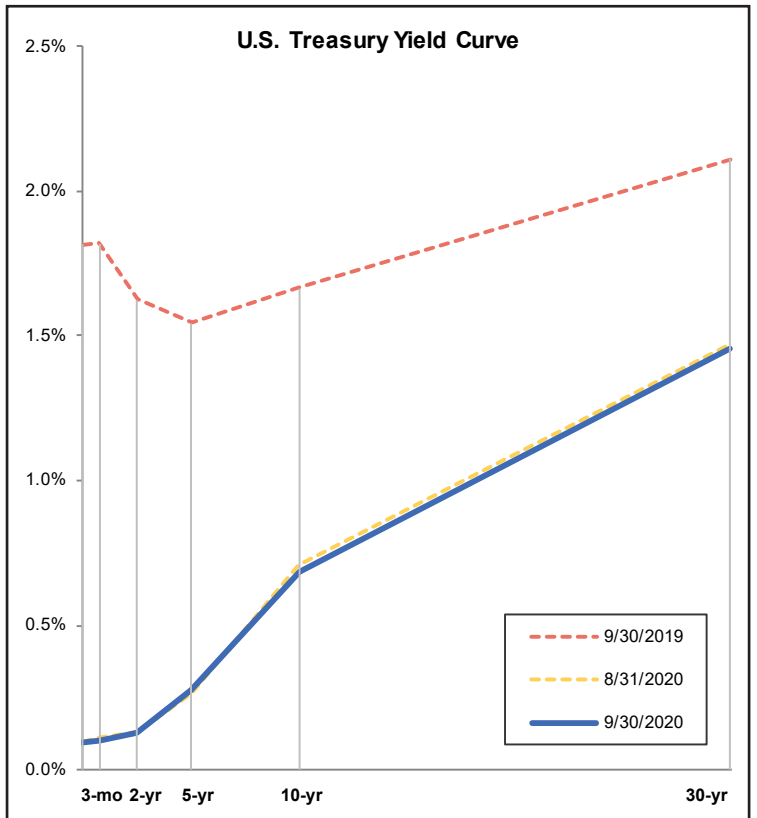
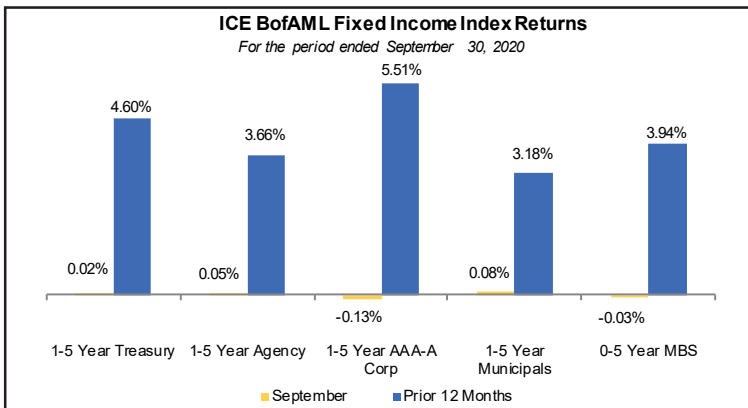
*This information is for institutional investor use only, not for further distribution to retail investors, and does not represent an offer to sell or a solicitation of an offer to buy or sell any fund or other security. Investors should consider the investment objectives, risks, charges and expenses before investing in the Virginia State Non-Arbitrage Program ("SNAP" or the "Program"). This and other information about the Program is available in the SNAP Information Statement, which should be read carefully before investing. A copy of the SNAP Information Statement may be obtained by calling 1-800-570-SNAP (7627) or is available on the Program's website at www.vasnap.com. While the SNAP Fund Portfolio seeks to maintain a stable net asset value of \$1.00 per share, it is possible to lose money investing in the Program. An investment in the Program is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Shares of the SNAP Fund Portfolio are distributed by **PFM Fund Distributors, Inc.**, member Financial Industry Regulatory Authority (FINRA) (www.finra.org) and Securities Investor Protection Corporation (SIPC) (www.sipc.org). PFM Fund Distributors, Inc. is a wholly owned subsidiary of PFM Asset Management LLC.*

| U.S. Treasury Yields | | | | |
|----------------------|--------------|--------------|--------------|----------------|
| Duration | Sep 30, 2019 | Aug 31, 2020 | Sep 30, 2020 | Monthly Change |
| 3-Month | 1.82% | 0.10% | 0.10% | 0.00% |
| 6-Month | 1.82% | 0.11% | 0.10% | -0.01% |
| 2-Year | 1.62% | 0.13% | 0.13% | 0.00% |
| 5-Year | 1.55% | 0.27% | 0.28% | 0.01% |
| 10-Year | 1.67% | 0.71% | 0.69% | -0.02% |
| 30-Year | 2.11% | 1.48% | 1.46% | -0.02% |

| Yields by Sector and Maturity as of September 30, 2020 | | | | |
|--|---------------|----------------|--------------------------|----------------|
| Maturity | U.S. Treasury | Federal Agency | Corporates-A Industrials | AAA Municipals |
| 3-Month | 0.10% | 0.07% | 0.19% | -- |
| 6-Month | 0.10% | 0.08% | 0.25% | -- |
| 2-Year | 0.13% | 0.17% | 0.35% | 0.26% |
| 5-Year | 0.28% | 0.41% | 0.75% | 0.52% |
| 10-Year | 0.69% | 1.01% | 1.61% | 1.12% |
| 30-Year | 1.46% | 1.64% | 2.77% | 1.74% |

| Spot Prices and Benchmark Rates | | | | |
|---------------------------------|--------------|--------------|--------------|----------------|
| Index | Sep 30, 2019 | Aug 31, 2020 | Sep 30, 2020 | Monthly Change |
| 1-Month LIBOR | 2.02% | 0.16% | 0.15% | -0.01% |
| 3-Month LIBOR | 2.09% | 0.24% | 0.23% | -0.01% |
| Effective Fed Funds Rate | 1.90% | 0.09% | 0.09% | 0.00% |
| Fed Funds Target Rate | 2.00% | 0.25% | 0.25% | 0.00% |
| Gold (\$/oz) | \$1,466 | \$1,971 | \$1,888 | -\$83 |
| Crude Oil (\$/Barrel) | \$54.07 | \$42.61 | \$40.22 | -\$2.39 |
| U.S. Dollars per Euro | \$1.09 | \$1.19 | \$1.17 | -\$0.02 |

| Economic Indicators | | | | |
|----------------------------|--------------|--------|--------|-----------------|
| Indicator | Release Date | Period | Actual | Survey (Median) |
| Existing Home Sales MoM | 22-Sep | Aug | 2.4% | 2.4% |
| Consumer Confidence | 29-Sep | Sep | 101.8 | 90.0 |
| GDP Annualized QoQ | 30-Sep | 2Q T | -31.4% | -31.7% |
| PCE Core Deflator YoY | 1-Oct | Aug | 1.6% | 1.4% |
| ISM Manufacturing | 1-Oct | Sep | 55.4 | 56.5 |
| Change in Nonfarm Payrolls | 2-Oct | Sep | 661k | 859k |
| Unemployment Rate | 2-Oct | Sep | 7.9% | 8.2% |



Source: Bloomberg. Data as of September 30, 2020, unless otherwise noted. The views expressed constitute the perspective of PFM Asset Management LLC at the time of distribution and are subject to change. The content is based on sources generally believed to be reliable and available to the public; however, PFM cannot guarantee its accuracy, completeness or suitability. This material is for general information purposes only and is not intended to provide specific advice or a specific recommendation. PFM is the marketing name for a group of affiliated companies providing a range of services. All services are provided through separate agreements with each company. Investment advisory services are provided by PFM Asset Management LLC, which is registered with the SEC under the Investment Advisers Act of 1940. For more information regarding PFM's services or entities, please visit www.pfm.com.

